

The Nature Conservancy
Consolidated Financial Statements
As of June 30, 2005 and 2004
Together with report of independent auditors

The Nature Conservancy
Consolidated Financial Statements
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June 30, 2005 and 2004

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Report of Independent Auditors

To the Board of Governors of
The Nature Conservancy

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the consolidated financial position of The Nature Conservancy and subsidiaries (The Conservancy) at June 30, 2005 and 2004, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the year ended June 30, 2005 with summarized totals for the year ended June 30, 2004 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 18, 2005

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2005 and 2004

<i>(Amounts in thousands)</i>	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 38,180	\$ 8,761
Investments	27,502	48,784
Notes receivable - current	5,975	4,930
Government grants receivable	16,179	13,316
Pledges receivable - current	50,831	42,370
Deposits and other current assets	12,927	16,866
Total current assets	<u>151,594</u>	<u>135,027</u>
Restricted cash	20,700	12,091
Notes receivable - long-term	15,339	13,001
Pledges receivable - long-term	66,802	49,616
Investments held for conservation projects	568,854	552,467
Trade lands	8,989	12,188
Property and equipment, net of accumulated depreciation and amortization	83,768	79,015
Planned giving investments	225,367	201,479
Endowment investments	802,880	732,306
Conservation lands	1,490,696	1,402,499
Conservation easements	979,737	875,479
Total assets	<u>\$ 4,414,726</u>	<u>\$ 4,065,168</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Financial Position
As of June 30, 2005 and 2004

<i>(Amounts in thousands)</i>	2005	2004
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 9,739	\$ 9,052
Accrued vacation liability	7,802	8,022
Other accrued liabilities	27,799	21,235
Current maturities of notes payable and lines of credit	24,487	18,901
Deferred revenue - current	12,475	13,147
Total current liabilities	<u>82,302</u>	<u>70,357</u>
Notes payable - long-term	358,697	363,965
Accrued liabilities - long-term	7,683	3,060
Deferred revenue - long-term	4,266	3,742
Planned giving liability	109,585	105,447
Total liabilities	<u>562,533</u>	<u>546,571</u>
Net assets		
Unrestricted		
Undesignated	9,288	6,927
Board-designated		
Land, easements, and project funds	2,476,072	2,261,627
Endowment	732,216	665,493
	<u>3,217,576</u>	<u>2,934,047</u>
Temporarily restricted	395,582	349,345
Permanently restricted	239,035	235,205
Total net assets	<u>3,852,193</u>	<u>3,518,597</u>
Total liabilities and net assets	<u>\$ 4,414,726</u>	<u>\$ 4,065,168</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Activities
For the year ended June 30, 2005

<i>(Amounts in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	\$ 99,394	\$ 48,224	\$ -	\$ 147,618
Contributions for land, land preservation fund, and other conservation projects	77,569	115,219	-	192,788
Contributions to endowments and similar funds	814	19,624	3,830	24,268
Contributions of goods and services	8,584	-	-	8,584
Mitigation and contracts	21,498	-	-	21,498
Government grants	112,290	-	-	112,290
Land and easements contributed for conservation	101,746	-	-	101,746
Contributions of trade lands	5,718	-	-	5,718
Investment income	139,907	-	-	139,907
Change in value of planned giving investments	-	1,282	-	1,282
Royalties, fees, and other	22,098	-	-	22,098
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	589,618	184,349	3,830	777,797
Sales of conservation land and easements to governments and others	165,440	-	-	165,440
Net assets released from restrictions	138,112	(138,112)	-	-
Total support and revenues	893,170	46,237	3,830	943,237
Expenses				
Program expenses				
Conservation activities and actions	291,533	-	-	291,533
Book value of conservation land and easements sold or donated to governments and others	190,862	-	-	190,862
Total program expenses	482,395	-	-	482,395
Support services expenses				
General and administration	71,029	-	-	71,029
Fund-raising				
General fund-raising	39,385	-	-	39,385
Membership development	16,832	-	-	16,832
Total support services expenses	127,246	-	-	127,246
Total expenses	609,641	-	-	609,641
Increase in net assets	283,529	46,237	3,830	333,596
Net assets at beginning of year	2,934,047	349,345	235,205	3,518,597
Net assets at end of year	\$ 3,217,576	\$ 395,582	\$ 239,035	\$ 3,852,193

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Activities
For the year ended June 30, 2004

<i>(Amounts in thousands)</i>	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Contributions for operations	\$ 101,935	\$ 40,217	\$ -	\$ 142,152
Contributions for land, land preservation fund, and other conservation projects	92,329	87,357	585	180,271
Contributions to endowments and similar funds	605	20,655	2,596	23,856
Contributions of goods and services	10,126	-	-	10,126
Mitigation and contracts	16,724	-	-	16,724
Government grants	97,751	-	-	97,751
Land and easements contributed for conservation	81,294	-	-	81,294
Contributions of trade lands	5,120	-	-	5,120
Investment income	179,720	-	-	179,720
Change in value of planned giving investments	-	5,860	-	5,860
Royalties, fees, and other	21,546	-	-	21,546
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	607,150	154,089	3,181	764,420
Sales of conservation land and easements to governments and others	101,411	-	-	101,411
Net assets released from restrictions	128,556	(128,556)	-	-
Total support and revenues	837,117	25,533	3,181	865,831
Expenses				
Program expenses				
Conservation activities and actions	273,414	-	-	273,414
Book value of conservation land and easements sold or donated to governments and others	128,481	-	-	128,481
Total program expenses	401,895	-	-	401,895
Support services expenses				
General and administration	68,578	-	-	68,578
Fund-raising				
General fund-raising	35,314	-	-	35,314
Membership development	18,145	-	-	18,145
Total support services expenses	122,037	-	-	122,037
Total expenses	523,932	-	-	523,932
Increase in net assets	313,185	25,533	3,181	341,899
Net assets at beginning of year	2,620,862	323,812	232,024	3,176,698
Net assets at end of year	\$ 2,934,047	\$ 349,345	\$ 235,205	\$ 3,518,597

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Cash Flows
For the years ended June 30, 2005 and 2004

<i>(Amounts in thousands)</i>	2005	2004
Cash flows from operating activities		
Increase in net assets	\$ 333,596	\$ 341,899
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Contributions restricted for:		
Investment in endowment	(3,830)	(2,596)
Investment in land preservation fund and other capital projects	-	(585)
Contributions of trade lands	(5,718)	(5,120)
Land and easements contributed for conservation	(101,746)	(81,294)
Gain on trade land sales	(719)	(1,135)
Loss on sales of conservation land and easements	26,020	24,823
Depreciation and amortization	4,017	3,508
Net realized and unrealized investment gains	(114,072)	(157,306)
Change in value of planned giving investments	(1,282)	(5,860)
Changes in assets and liabilities:		
Government grant receivables	(2,863)	(1,574)
Deposits and other current assets	3,939	21,699
Pledges receivable	(25,647)	10,635
Accounts payable	687	(2,942)
Accrued vacation liability	(220)	16
Other accrued liabilities	11,187	6,871
Deferred revenue	(148)	(724)
Planned giving liability	4,138	3,999
Additional cash provided by (used in) land activities:		
Proceeds from sales of conservation land and easements	165,440	101,411
Purchases of conservation land and easements	(283,116)	(193,708)
Proceeds from sales of trade lands	10,583	8,907
Purchases of trade lands	-	(97)
Net cash provided by operating activities	<u>20,246</u>	<u>70,827</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statements of Cash Flows
For the years ended June 30, 2005 and 2004

<i>(Amounts in thousands)</i>	2005	2004
Cash flows from investing activities		
Increase in restricted cash	\$ (8,609)	\$ (2,337)
Proceeds from sale of investments	1,102,479	1,815,409
Purchases of investments	(1,054,086)	(1,875,050)
Issuance of notes receivable	(6,926)	(4,702)
Proceeds received from notes receivable	3,543	33,310
Increase in planned giving investments	(22,606)	(24,108)
Purchases of property and equipment	(8,770)	(5,790)
Net cash provided by (used in) investing activities	<u>5,025</u>	<u>(63,268)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	3,830	2,596
Investment in land preservation fund and other capital projects	-	585
Principle payments on debt, including lines of credit and notes payable	(25,627)	(31,617)
Proceeds received from notes payable and advances against lines of credit	25,945	16,560
Net cash provided by (used in) financing activities	<u>4,148</u>	<u>(11,876)</u>
Net change in cash and cash equivalents	29,419	(4,317)
Cash and cash equivalents, beginning of year	8,761	13,078
Cash and cash equivalents, end of year	<u>\$ 38,180</u>	<u>\$ 8,761</u>
Supplemental data		
Interest paid	\$ 8,980	\$ 5,557
Seller debt-financed land acquisitions	3,702	1,610
Income taxes paid	260	170

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

1. Organization

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy conducts its activities throughout the United States, and in Canada, Latin America, the Caribbean, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, and government grants. These resources are used to conserve portfolios of functional conservation areas within and across ecoregions. Through this portfolio approach, The Conservancy works with partners to conserve a full array of ecological systems and viable native species.

2. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

Basis of financial statement presentation

The consolidated financial statements are presented on the accrual basis of accounting.

Classification of net assets

The Conservancy's net assets have been grouped into the following three classes:

- **Permanently restricted net assets** – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the resources must be maintained permanently by The Conservancy.
- **Temporarily restricted net assets** – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs.
- **Unrestricted net assets** – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income, and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Governors to be maintained as land, easements, land preservation funds (for the purchase of conservation land), other conservation project funds, and endowment funds.

Cash and restricted cash

Highly liquid investments purchased with an original maturity of three months or fewer are considered to be cash equivalents. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

Concentration of credit risk

The Conservancy's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents balances. The Conservancy invests its excess cash and cash equivalents in a repurchase agreement account with a high quality financial institution. The repurchase agreements are collateralized by U.S. Government securities, and bear minimal risk.

Investments

Investments are carried at estimated fair market value on the consolidated statements of financial position. Fair values of investments are estimated based on quoted market prices where available. Fair values for certain private equity and real estate investments held through limited partnerships or commingled fund shares or planned giving investments held in trust by third party trustees are estimated by the respective external investment managers if market values are not readily ascertainable. These valuations necessarily involve assumptions and estimation methods that are reviewed by The Conservancy, and actual valuations could differ from those estimates. Investments may include some short term investments which consist primarily of money market funds and other short term investments temporarily held by investment managers or held for a specific purpose. The Conservancy's investments consist of the following:

- **Investments** – Short- and medium-term investments of working capital.
- **Investments held for conservation projects** – Funds for the acquisition of conservation land, easements, and for funding other conservation projects.
- **Planned giving investments** – Planned giving investments are donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts. Planned giving investments are recorded at current fair value or at an estimated fair value based on the latest available information. Income earned on the invested funds is payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated lead payments where The Conservancy is the trustee. The Conservancy determines the discount rate to be used in the month the planned giving arrangements are entered into with the donor and these rates have ranged from 3.7 to 8.0 percent. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift. The remaining portion of the gift is recorded as temporarily restricted revenue.
- **Endowment investments** – Funds held as long-term capital to generate income for The Conservancy's operations.

Land and Land Interests

The Conservancy records land and land interests at cost, if purchased, or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by independent appraisal. These assets fall into three primary categories:

- **Conservation lands** – real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

- **Trade lands** – real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work.
- **Conservation easements** – intangible assets comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor.

With the exception of trade lands, which are carried at the lower of cost or fair market value, land and land interests are reported at the original book value. Upon sale or gift, the book value of the land or land interest is removed as an asset from the consolidated statement of financial position and reported as a program expense. The related proceeds, if any, are reported as revenue in the consolidated statement of activities. The majority of land sales and gifts relate to transfers of real property. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Property and equipment

Property and equipment are carried at cost. The Conservancy's minimum capitalization threshold is \$50,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss on retirement or disposal of the individual assets is recorded as revenue or expense.

Depreciation is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment	3 – 5 years
Furniture and fixtures	5 – 7 years

Contributions

Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that sufficiently limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

Grants and contracts

The Conservancy receives grants and contracts from federal, state, and local agencies, as well as from private organizations, to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable. Any excess of cash receipts over reimbursable expenditures is included in deferred revenue.

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Notes to Consolidated Financial Statements
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The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Notes receivable

Notes receivable relate primarily to sales of land by The Conservancy. Notes receivable are recorded annually at their net realizable value. Maturities range from 1 to 24 years with varying interest rates from 0 to 10.0 percent. Default interest rates may be higher. Interest rates on trade land sales approximate market rates at the time of the sale.

4. Pledges receivable

As of June 30, 2005 and 2004, unconditional promises to give were as follows:

<i>(In thousands)</i>	2005	2004
Amounts due in		
Less than one year	\$ 50,831	\$ 42,370
One to five years	68,158	47,943
More than five years	<u>5,900</u>	<u>8,503</u>
Subtotal	124,889	98,816
Less:		
Discount to present value	4,756	4,630
Allowance for uncollectible pledges	<u>2,500</u>	<u>2,200</u>
	<u>\$ 117,633</u>	<u>\$ 91,986</u>

Pledges receivable greater than one year in time are discounted at a risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue and is used in accordance with donor-imposed restrictions, if any, on the contributions. An allowance is made for uncollectible pledges based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

As of June 30, 2005 and 2004, The Conservancy had received promises to give totaling approximately \$40,608,000 and \$46,302,000, respectively, that are conditioned upon The

The Nature Conservancy
Notes to Consolidated Financial Statements
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Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

5. Investments

Investments consisted of the following at June 30, 2005 and 2004:

(In thousands)

	2005				
	Current investments	Investments held for conservation projects	Planned giving investments	Endowment investments	Total
Short term investments	\$ 26,088	\$ 44,552	\$ 30,750	\$ 7,239	\$ 108,629
Fixed income - bonds	-	110,862	69,678	83,427	263,967
Equities	299	305,734	97,030	584,411	987,474
Real estate trusts	-	-	1,400	-	1,400
Private equity and hedge fund investments	1,115	109,918	-	125,591	236,624
Receivables from trusts	-	-	26,509	-	26,509
Interfund loans	-	(2,212)	-	2,212	-
Total investments	<u>\$ 27,502</u>	<u>\$ 568,854</u>	<u>\$ 225,367</u>	<u>\$ 802,880</u>	<u>\$ 1,624,603</u>

(In thousands)

	2004				
	Current investments	Investments held for conservation projects	Planned giving investments	Endowment investments	Total
Short term investments	\$ 46,932	\$ 91,126	\$ 4,041	\$ 11,817	\$ 153,916
Fixed income - bonds	-	153,727	73,332	117,154	344,213
Equities	355	222,758	106,530	504,242	833,885
Real estate trusts	-	-	313	-	313
Private equity and hedge fund investments	1,497	81,588	-	102,361	185,446
Receivables from trusts	-	-	17,263	-	17,263
Interfund loans	-	3,268	-	(3,268)	-
Total investments	<u>\$ 48,784</u>	<u>\$ 552,467</u>	<u>\$ 201,479</u>	<u>\$ 732,306</u>	<u>\$ 1,535,036</u>

The Nature Conservancy
Notes to Consolidated Financial Statements
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See Note 2 for a description of the classification of The Conservancy's investments.

Planned Giving Investments include gift annuities with a fair market value of \$93,412,000 and \$86,456,000 as of June 30, 2005 and 2004, respectively. The corresponding liability for these annuities was \$58,327,000 and \$54,848,000 as of June 30, 2005 and 2004, respectively, with an increase in net assets for gift annuities in the amount of \$3,477,000 for the year ended June 30, 2005 and a decrease in net assets for gift annuities in the amount of \$5,699,000 for the year ended June 30, 2004.

Planned Giving Investments include recognition of contribution revenue which is classified as temporarily restricted contributions to endowments and similar funds. The amount of planned giving contribution revenue recognized was \$18,467,000 and \$20,108,000 for the years ended June 30, 2005 and 2004, respectively.

Certain investment managers of The Conservancy utilize derivative instruments for hedging purposes in their portfolios. These investments are intended to hedge currency exposures and interest rate risks. The fair market values of these hedge contracts in the investment balance were approximately \$47,672,000 and \$13,625,000 at June 30, 2005 and 2004, respectively.

The Conservancy has remaining obligations to private equity and hedge fund investments of \$64,312,000 at June 30, 2005.

Investment income consisted of the following for the years ended June 30, 2005 and 2004:

<i>(In thousands)</i>	2005	2004
Dividends and interest income	\$ 32,815	\$ 28,118
Realized gains (net of expenses of 6,980 and 5,704, respectively)	90,694	31,635
Unrealized gains	16,398	119,967
Investment income	<u>\$ 139,907</u>	<u>\$ 179,720</u>

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Notes to Consolidated Financial Statements
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6. Restricted net assets

Temporarily restricted net assets are available for the following purposes:

	2005	2004
<i>(In thousands)</i>		
Land acquisition and other conservation projects	\$ 162,693	\$ 161,853
Time restricted for periods after June 30	232,889	187,492
Total	<u>\$ 395,582</u>	<u>\$ 349,345</u>

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. For the years ended June 30, 2005 and 2004, such income totaled \$23,608,000 and \$29,941,000, respectively.

7. Property and equipment

Property and equipment consisted of the following at June 30, 2005 and 2004:

	2005	2004
<i>(In thousands)</i>		
Land	\$ 4,318	\$ 4,318
Buildings and improvements	84,170	76,281
Construction in progress	7,256	8,902
Computer equipment and software	1,823	1,543
Furniture, fixtures, and other	5,686	3,461
	<u>103,253</u>	<u>94,505</u>
Less - Accumulated depreciation and amortization	(19,485)	(15,490)
Total	<u>\$ 83,768</u>	<u>\$ 79,015</u>

The Conservancy acquired \$153,000 and \$794,000 in property through federal grants for the years ended June 30, 2005 and 2004, respectively.

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Notes to Consolidated Financial Statements
June 30, 2005 and 2004

8. Notes payable and lines of credit

Notes payable and lines of credit consisted of the following at June 30, 2005 and 2004:

<i>(In thousands)</i>	2005	2004
Unsecured Line of Credit providing total borrowings up to \$15,000,000 as of June 30, 2005 and 2004. Interest is payable at various rates based on LIBOR plus 0.35%, depending on repayment terms.	\$ -	\$ -
Unsecured borrowings due at various dates through 2012. Interest is payable at various rates based on LIBOR plus 0.50%, depending on repayment terms, 3.84% and 1.84% at June 30, 2005 and 2004, respectively.	1,008	1,275
Unsecured Colorado Educational and Cultural Facilities Authority Tax Exempt Revenue Bonds, Series 2002A issued in the original principal amount of \$25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; fixed interest rate pursuant to interest rate swap, 3.56% as of June 30, 2005 and June 30, 2004, due July, 2027.	25,053	25,053
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2002B-1 through Series 2002B-2 issued in the original principal amount of \$100,000,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; pay bond issuance costs, and finance and refinance acquisition of conservation land and easements; variable interest rates, 3.30% and 1.30% for Series 2002B-1 and 3.40% and 1.30% for Series 2002B-2 at June 30, 2005 and 2004, respectively, due July, 2032.	97,150	98,375
Unsecured Colorado Educational and Cultural Facilities Authority Taxable Revenue Bonds, Series 2003A-1 through Series 2003A-4 issued in the original principal amount of \$200,000,000 to finance acquisition of conservation land and easements; variable interest rates, 3.24% and 1.45% at June 30, 2005 and 2004, respectively, due July, 2033.	193,400	196,700
Loans and mortgages on land held for conservation, some of which are collateralized by the land, and payable in monthly installments, including interest ranging from 0% to 11%; final payments are due at various dates through 2022.	66,203	61,083
Other notes payable without interest due on demand	370	380
	<u>383,184</u>	<u>382,866</u>
Less - current maturities	<u>(24,487)</u>	<u>(18,901)</u>
Total notes payable - long term	<u>\$ 358,697</u>	<u>\$ 363,965</u>

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

The future maturities of notes payable and lines of credit are as follows:

Year ended June 30	(in thousands)
2006	\$ 24,487
2007	31,414
2008	8,591
2009	8,203
2010	14,170
Thereafter	296,319
	<u>\$ 383,184</u>

Interest expense incurred on notes payable and lines of credit for 2005 and 2004 was \$9,368,000 and \$3,050,000, respectively.

9. Contributed goods and services

The Conservancy periodically receives contributed professional services from third parties and recognizes revenue at the fair value of those services. During 2005 and 2004, these services totaled \$5,645,000 and \$6,381,000, respectively. In addition, The Conservancy received contributed goods that totaled \$2,939,000 and \$3,745,000 for the years ended June 30, 2005 and 2004, respectively. Contributed goods are recorded at fair value on the date of donation.

10. Fair value of financial instruments

The carrying amounts of cash, receivables, accrued liabilities, and payables on the consolidated statements of financial position approximate fair value due to the short-term nature of these items.

The carrying amounts of long-term debt and notes receivable on the consolidated statements of financial position approximate fair value, which is estimated based on current market rates offered to or by The Conservancy for similar instruments.

11. Commitments and contingencies

Leases

The Conservancy has entered into noncancelable operating leases for office space, which expire at various dates through 2014. Certain of these leases contain rent escalation clauses based on the consumer price index.

The following is a schedule of future minimum lease payments for all operating leases:

The Nature Conservancy
Notes to Consolidated Financial Statements
June 30, 2005 and 2004

Year ended June 30	(in thousands)
2006	\$ 3,334
2007	2,950
2008	2,313
2009	1,526
2010	1,384
Thereafter	<u>2,912</u>
Total minimum lease payments	<u>\$ 14,419</u>

Rent expense was \$8,263,000 and \$7,765,000 for the years ended June 30, 2005 and 2004, respectively.

Land acquisitions and other commitments

The Conservancy has entered into contracts for the purchase of land and other purchase commitments that had not closed as of June 30, 2005, in the amount of \$60,539,000.

On July 1, 1999, The Conservancy entered into an agreement with The Association for Biodiversity Information: The International Network of Natural Heritage Programs and Conservation Data Centers (ABI), subsequently renamed NatureServe, to further manage, analyze, and deliver biodiversity conservation data and information. The Conservancy initially committed to provide up to \$40,000,000 of financial support to NatureServe over a seven-year period if certain conditions are met. The Conservancy has provided \$27,468,000 of this commitment to NatureServe through June 30, 2005. In addition, a line of credit in the amount of \$1,000,000 has been extended by The Conservancy to NatureServe as of May 1, 2001, with an extended maturity date of April 30, 2006. As of June 30, 2005, NatureServe owed \$150,000 at an interest rate of 3.69 percent.

The Conservancy is a party to an agreement whereby under certain circumstances, the Conservancy may be required to establish a special purpose entity and accept a loan from the other party to the agreement. The Conservancy would, in turn, secure the loan with a qualified existing asset, and guarantee repayment of the loan should the special purpose entity fail to perform under the terms of the loan. The Conservancy believes the likelihood of any significant loss related to this guarantee to be remote.

12. Retirement plans

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. The Conservancy's contributions to the Plan were \$7,685,000 and \$6,518,000 for the years ended June 30, 2005 and 2004, respectively.

The Nature Conservancy

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

13. Program expense allocation

Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- **Conservation Activities and Actions** – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy’s ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy’s ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Finally, this category includes expenditures relating to community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.
- **General and Administration** – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.
- **General Fund-Raising** – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy’s mission and objectives.
- **Membership Development** – Expenditures related to the acquisition and retention of The Conservancy members, primarily through the use of a direct-mail program.

14. Income taxes

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation.

The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. At June 30, 2005 and 2004, The Conservancy had a cumulative unrelated business income net operating loss of \$0.

The Nature Conservancy
Schedules of Functional Expenses
For the year ended June 30, 2005 with summarized totals for the year ended June 30, 2004

(Amounts in thousands)

	Program expenses	Support services expenses					Totals	
		Conservation activities and actions	General and administration	Fund-raising		Support services expenses	2005 Total expenses	2004 Total expenses
				General fund-raising	Membership development			
Personnel	\$ 131,562	\$ 43,288	\$ 24,272	\$ 1,750	\$ 69,310	\$ 200,872	\$ 187,018	
Telecommunications	3,697	1,212	680	12	1,904	5,601	5,359	
Travel and meetings	10,040	3,279	1,838	11	5,128	15,168	14,498	
Supplies and equipment	9,768	3,122	1,742	2,299	7,163	16,931	15,677	
Postage and mailing service	1,754	568	318	7,057	7,943	9,697	10,506	
Printing, newsletter, and public relations	7,546	1,237	694	3,934	5,865	13,411	13,561	
Direct-mail lists	-	-	-	1,272	1,272	1,272	1,206	
Contract/Professional fees	40,087	10,214	5,697	493	16,404	56,491	56,915	
Dues, fees, and licenses	1,049	328	184	3	515	1,564	963	
Interest and bank charges	10,742	126	70	-	196	10,938	4,637	
Rent	5,476	1,786	1,001	-	2,787	8,263	7,765	
Utilities, repair, maintenance, and construction	3,246	816	443	-	1,259	4,505	4,016	
Equipment and vehicle operating expense	3,282	1,069	599	-	1,668	4,950	4,750	
Insurance	2,371	782	430	-	1,212	3,583	3,183	
Real estate taxes	3,443	817	403	-	1,220	4,663	5,501	
Closing costs	4,754	579	3	-	582	5,336	2,610	
Depreciation and amortization	3,920	62	35	-	97	4,017	3,508	
Other	4,754	1,744	976	1	2,721	7,475	10,576	
Grants to others	44,042	-	-	-	-	44,042	43,202	
Subtotal	291,533	71,029	39,385	16,832	127,246	418,779	395,451	
Book value of conservation land and easements sold or donated to government and others	190,862	-	-	-	-	190,862	128,481	
Total	\$ 482,395	\$ 71,029	\$ 39,385	\$ 16,832	\$ 127,246	\$ 609,641	\$ 523,932	